

Retail Internationalization JC Penney's Global Expansion

Abstract

In apparel industry, as domestic markets become overstored and/or mature, retailers consider international market involvement as a strategy for growth. Retailers have been successful in expansions to some countries, but not in others. This paper analyzes and evaluates JC Penney's positioning and retailing strategies in domestic market, international expansion strategies, and factors such as culture influences on its international expansion strategies. This study presents a prototype for other retailers to follow when looking inside and outside national borders for expansion opportunities.

Introduction

The emergence of global fashion has transformed the way fashion is perceived in the contemporary world. Retailers consider international market involvement as a strategy for growth. They seek opportunities in new geographical markets by increasing level of international activities (Williams, 1992). The purpose of this study is to analyze and evaluate JC Penney's positioning and retailing strategies in domestic market, international expansion strategies, and factors such as culture influences on its international expansion strategies. However, our study is more focus on apparel area.

U.S. retailers do business in the largest and most affluent mass market in the world. Domestic retailers have expanded from the east coast to the west coast, and from the northern border to the southern border. However, the time has come when many retail formats have reached the saturation point. The USA is saturated and for many retailers, the best expansion opportunity is to internationalize. JC Penney is one of America's largest department store, drugstore, and catalog retailers. JC Penney catalog, including e-commerce, is the nation's largest catalog merchant of general merchandise. To study the strategies that JC Penney employing, especially its successful expansion in Brazil, could, to some degree, present a prototype for other retailers to follow when looking inside and outside national borders for expansion opportunities.

Background Information

JC Penny was originally founded in 1902, by James Cash Penney and William Henry McNacus who opened "Golden Rule" as a drug goods and clothing store in Kemmerer,

Wyoming. In 1913 several partners meet in Salt Lake City to draft “The Penney Idea” which incorporates the company’s business principles for which they will do business from then on. As a result, the eponymous JC Penney is established. Today, JC Penney is a holding company whose principal operating subsidiary is JC Penney Corporation. The holding company has no independent assets or operations, and no direct subsidiaries other than JC Penney Corporation. The nationwide chain is one of the leading retailers in the US. The company now operates 1,033 departmental stores in 49 states of the US and Puerto Rico as of February 2007. JC Penney is headquartered in Plano, Texas and employs 155,000 people. JC Penney recorded revenues of \$19,903 million during the fiscal year ended January 2007, an increase of 6% over 2006. The operating profit of the company was \$1,922 million during fiscal year 2007, an increase of 17.8% over 2006. The net profit was \$1,153 million in fiscal year 2007, an increase of 6% over 2006 (Company profile, 2007).

JC Penney’s business consists of providing merchandise and services to consumers through its department stores and Direct market. The department stores and Direct market generally serve the same type of customers and provide virtually the same mix of merchandise. JC Penney provides family apparel, jewelry, shoes, accessories and home furnishings. In addition, the department stores provide customers with services, such as salons, optical offices, portrait photography and custom decorating. The company is one of the largest department store, catalog and e-commerce retailers in the United States. JC Penney has numerous competitors, which include other department stores, discounters,

home furnishing stores, specialty retailers, wholesale clubs, direct-to-consumer businesses and other forms of retail commerce.

JC Penney owns seven of its 13 store support centers and its three regional warehouses. The companies merchandise assortments consist of national brand, exclusive designer brands and an extensive line of private labels. Some of the brands include JC Penney Home Collection, Original Arizona Jean Company, Nicole, Bisou Bisou, Solitude, Stafford and Worthington. JC Penney sells a variety of merchandise through 1,445 catalog centers located in its department stores and other freestanding outlets in the US. All orders from catalogs are processed through these catalog centers. JC Penney publishes specialty catalogs annually, covering various selected merchandise. Some merchandise sold by the company is catalog exclusive such that it can only be purchased via catalogs and not through its department stores.

Retail and Expansion Strategies

Domestic Expansion

As a retailer, JC Penney faces stiff competition from many fronts, ranging from department store operators such as Macy's Inc, and Kohl's, to specialty retailers such as Abercrombie & Fitch Company and big-box retailers such as Wal-Mart Stores and Target. In this crowded landscape, JC Penney's success will hang on its ability to distinguish itself from its competition and better serve niche consumer segments.

JC Penney has focused on a target demographic of customers with a household income between \$35,000 and \$100,000 and has cultivated an image that will appeal to its most profitable customers. It's nestled in between the high-end, designer-boutique-driven department store, such as Bloomingdale's and Macy's and the trendy-commodity-driven mass retailers, such as Wal-Mart and Target. It benefits from the market position of an upscale consumers trading down and the low-end consumers trading up. JC Penney found a niche in this mid-market. The driving force behind JC Penney's decision to focus on the Middle comes from research which helped define and understand its target customer more adequately. According to JC Penney, the Middle customer is (Ellen, 2005):

- Female
- Age 35-54
- \$69K household income
- Married, with kids
- Seeks stylish, but not too trendy casual clothes
- Wants high-quality, form-fitting clothes that aren't too tight

JC Penney has had the image of being, "your parents store", the image of a typical mother has changed. Now, even older women, including working and stay at home mothers are becoming trendier. JC Penney meets the needs of their loyal longtime customers and their newer trendy customers through their new and more updated clothing line. The company's department stores were converted to centralized merchandising, a move aimed at enabling the company to introduce new fashions faster, present a uniform

chainwide image, and cut costs. The company has introduced a trendier line of clothing in an effort to attract younger crowds that are more fashionable. JC Penney took steps in its long-running push to update its image to reflect more stylish offerings.

To serve its target market, JC Penny's is working with well-known designer Nicole Miller, on an exclusive line of moderately priced and more than moderately stylish casual woman's clothes. JC Penney has also added exclusive home furnishings from Chris Madden and Colin Cowie. The company focuses on strategies including: making an emotional connection with the customer, making JC Penney an easy and exciting place to shop, making JC Penney a great place to work and making JC Penney a superior in performance and execution (MarketWatch Profile, 2008).

JC Penney has expanded its market through private brand strategy. The company has more than 25 private brands across its business, which generates 48% and 46% of the total department store merchandise sales in 2006 and 2005 respectively (Company Profile, 2007). In addition to classifying consumer types, JC Penney has focused on bringing "private" and "exclusive" brands to a market tailored for its customers' tastes and lifestyles. The new private and exclusive brand is one of the most compelling attractions of JC Penney. Department stores have increasingly sought to distinguish themselves by offering exclusive brands and private label brands. Exclusive brands are brands marketed under the wholesaler's name that are sold only in a particular chain. Private label brands are produced by wholesales, but sold under the brand name of the retailer.

Currently, just under 50% of JC Penney's merchandise is either privately or exclusively branded. In the past two years, JC Penney has introduced a plethora of new private and exclusive brands including, Ralph Lauren's American Living, women's dress casual brands Nicole and W-Work to Weekend and home accessory brands such as Chris Madden Hotel Collection and Cooks. JC Penney, creates private-label goods under labels such as Arizona, also has rapidly expanded its design team. It doubled the number of designers to 100 in 2006 in an effort to be more nimble in churning out clothing that follows fashion trends (MarketWatch Profile, 2008). They also added to their merchandise mix Ambrielle, an intimate apparel brand for the modern customer, and two new casual brands created from the company by Liz Claiborne-Liz & Co. for the traditional woman and Concepts by Claiborne for the modern man. Early sales of these brands suggest that they are resonating extremely well with the customers. Private and exclusive products tend to provide higher margin than lower end merchandise. A continued expansion into these areas promises to boost profits.

In addition to JC Penney's increasingly selective profile, it has recently partnered with luxury cosmetic maker Sephora. This partnership has proven to be beneficial to both JC Penney and Sephora for several reasons. First, both partners believe that this retail venture will capitalize on the close overlap between the two companies target demographic, thus driving additional consumer traffic to both JC Penney and Sephora stores. Second, Sephora.com will become the exclusive provider of cosmetics to jcp.com, which will enhance each companies presence on the web.

JC Penney has made great stride in developing an emotional connection with their customers. The company wants to build a more enduring relationship with their customers by making sure their brands differentiates them from competition, while inspiring their customers. JC Penney launched a new brand positioning in order to show their customers that they understand what matters to their customers as they live their lives every day.

After years of shuttering stores to reduce inefficiencies and unnecessary costs, JC Penney has begun an ambitious plan to expand its retail footprint. In 2006, they opened 28 new stores. They believe there are more than 400 additional locations for new JC Penney stores, and they plan to open 250 new stores in the next five years. The majority of these new stores will be in their highly successful off-mall format, which allows JC Penney to enter communities which do not have malls, but where there is significant demand for the company's national brands as well as their private and exclusive brands. A shift to off-mall locations could provide several benefits: (1) the company has already identified 400 possible locations for off-site locations where mall locations have only grown at 1% in recent years; (2) JC Penney can reach new markets in suburbs in major metropolitan areas that overlap with its core customer target; and (3) off-mall stores generates more consistent sales because customers tend to shop at these locations throughout the week, whereas malls tend to be weekend-oriented.

The combination of a mall and off-mall presence puts JC Penney in a strong competitive position, which is enhanced by having one of the most popular general merchandise web sites on the internet. JC Penney was lowering catalog circulation to focus more on sales at www.jcp.com. In 2006, [jcp.com](http://www.jcp.com)'s sales grew 24 percent to approximately \$1.3 billion (Company Profile, 2007). The web site is now accessible through 35,000 sales terminals and is increasingly the technological architecture for the company's organization. JC Penney keeps on adjusting its web strategy based on the changing nature of its customers. As the web shoppers are typically younger than the traditional catalog customers. JC Penney is thinking and doing more with broadband noticing more of their shoppers are now placing orders from work where they have a broadband access. In November 2007, the company launched a new public website [JCPenneyBrands.com](http://www.JCPenneyBrands.com) (<http://www.jcpennybrands.com/>), which covers the company's private and exclusive brands, and their branding strategy, with a preview of an upcoming product line.

International Expansion

Clearly, JC Penney had developed a successful business model for competing in the United States. However, the company needs to grow in order to survive, and the international arena was the only one in which significant growth was possible. The company not only needs to show increases in both sales and profits to satisfy capital market expectation but also needs to satisfy the expectations of its own employees. In United States, it had already saturated most of the domestic markets. The customers in United States only account for 4-5% of the world's population, which limiting the potential market. Further, emerging markets, with their lower levels of disposable

income, offered huge platforms for growth in retailing. JC Penney therefore pursues globalization to meet the competition.

In going outside the United States, JC Penney could not afford to enter all the global markets simultaneously because of the lack of necessary resources such as financial, organizational and managerial experience. According to Treadgold (1990), some retailers expand their international market into areas that are geographically and culturally similar to their home countries. This near neighbor approach (Moore et al., 2000) to retail internationalization minimizes business risk through gaining experience of like markets by organic growth or acquisition. While some other retailers would like to take a more ambitious approach to cross-border expansion through franchising or acquisition approaches to accelerate the process (Moore et al, 2000). JC Penney concentrated heavily on establishing a presence in the Americas: Puerto Rico, Chile, Mexico, and Brazil. Opportunities in Latin and South America will be explored as they arise.

The international expansion division's strategy of the company is to manage JC Penney's international operations and develop new opportunities to leverage their global sourcing capabilities, their private brands, and their expertise as a retailer serving the needs of families. Once JC Penney had selected the countries to enter, it needed to determine the appropriate mode of entry. Every company making this move faces an array of choices: it can acquire an existing player, build an alliance with an existing player or start Greenfield operations, either alone or in partnership with another player. JC Penney had

developed three methods for implementation in global markets: (1) owning and operating JC Penney department stores; (2) licensing for forming joint ventures with local partners, and (3) exporting private-brand merchandise to be sold through other retailers. In addition, internet has fostered another alternative for growth.

JC Penney opened one store in the region of Santiago, Chile in March 1995, however after five years of difficult time, JC Penney closed its operation in Chile and sold to Almacenes Paris, all of its assets and equipment (Luer et al, 1996). JC Penney then decided to pull out of Mexico after eight years for competitive reasons as well. The unsuccessful internationalization in Chile and Mexico suggests that differences in the environment between countries diminish the effective transfer of the source of competitive advantage. Retailers should investigate the difficulties of governmental, culture, and psychic differences between markets in different countries. For example, JC Penny tried to implement a retail format in Chile without any modification. Its product offering was not totally suitable to the tastes and preferences of the Chilean consumers. The top executive in Chile for JC Penney, who only spoke English, copied strongly the American model was also a disadvantage. JC Penney didn't have local suppliers in Chile. Their centralized system is very sophisticated with an American taste. Other problems including JC Penney took less consideration of the limitations of space and localization. They couldn't find the right opportunities to expand in the local market. Also, the merchandise was inadequate, with a high logistic costs due to the different seasons (Bianchi et al, 2005). In Mexico, there are also some differences. The average income per head in Mexico of around \$4,000 a year is close to the point at which

consumer spending starts to take off. Half the population is under 19 years old. Even in Mexico city, more than half of consumers still shop in old-fashioned, inefficient ways at markets of family-run corner shops (Economist, 1994). The failure of Greenfield strategy that JC Penney used in Chile and Mexico is mainly due to the overlook the differences between foreign market and US market.

In a welcome break with its experience elsewhere in Latin America, JC Penney has exhibited steady growth in Brazil. The department store company's willingness to adapt to the local market from the beginning explains why it remains in Brazil, showing profits, having exited Chile in 1999 and Mexico late in 2003. JC Penney expanded overseas in January 1999 through the \$139 million purchase of Lojas Renner, a 21-unit department store chain in Brazil (Consumer Market Insights, 2006). JC Penney grows fast in the Brazilian market after it acquired more than 40 department chains there.

JC Penney joins U.K. retailer Tesco, Sweden-based H&M and the Nordic retailer Lindex, as the first of Disney's direct-to-retail licensees. License agreements for those European retailers begin in mid-2001, and include all Disney properties (except theme parks, network television and ESPN properties) for children's wear. Sophora is a great example of a joint initiative allows JC Penney to provide relevant merchandise to its broad customer base. Also, Ralph Lauren Launch, the largest launch in the company's history is expected to lift the overall look and feel of the store. As part of the alliance, Global Brand Concepts, a new division of Polo Ralph Lauren, owns the trademark for the brand

and overseas the design, sourcing and production, while JC Penney's owns the actual product and is responsible for inventory and the selling of the merchandise.

JC Penney has in recent years doubled the quantum of products they outsource from India. According to claim of JC Penney Purchasing Corporation, India, India is fast emerging as a regional strength and they outsource goods to the tune of \$130 million from India. It was just \$40 million three years ago. Currently, garments constitute a major portion of the goods outsourced from India. A substantial chunk of the inhouse brands of JC Penney are made in Tirupur in Tamil Nadu and Lower Parel in Mumbai, India (Export Basket, 2008).

Whenever a company enters a new country, it can expect retaliation from local competitors as well as from other multinationals already operating in that market. JC Penney encountered competitors from local market such as Falabella (Chile), Ripley (Chile), Ahmacenes Paris(Chile), Cifra (Mexico), Lojas Renner (Brazil), Mappin (Brazil), Mesbla (Brazil) and from foreign retailer such as Sears, Dillard, and Macy.

JC Penney's expansion in Brazil

JC Penney entered Brazil in 1998 via the acquisition of Lojas Renner, a nonfood retailer based in the south. It has since increased the number of its stores from 21 to 60, having expanded into Brazil's south-east and centre-west regions as well. Despite the maxi devaluation of the Real in 1999 and subsequent four-year consumer spending slowdown,

the retailer's annual sales have trebled in local terms reaching Rbn(US\$350m) in 2003 (Business Latin America, 2004).

Brazil is the fifth-largest country in the world and is leading economic and political power in South America with fifth-largest population. United States, Argentina, China, Netherlands, Germany, and Mexico are major trading partner of it. Compared with a year earlier, Brazil retails sales in 2006 were up 6.95% (Consumer Market Insights, 2006).

The Brazilian apparel retailing industry generated total revenues of \$36.6 billion in 2006, this representing a compound annual growth rate (CAGR) of 1.6% for the period spanning 2002-2006 (Market Overview, 2007). The womenswear segment was the Brazilian industry's most lucrative in 2006, generating total revenues of \$18.2 billion, equivalent to 49.9% of the industry's overall value. The menswear segment contributed revenues of \$13.8 billion in 2006, equating to 37.6% of the industry's aggregate revenues (Market Overview, 2007).

Brazil is an attractive market for retailers like JC Penney who is looking for global expansion. The Brazilian apparel retail industry is increasingly concentrated, with larger companies increasing their market share at the expense of more traditional and independent outlets. Virtually all buyers are individual consumers, This weakens buyer power, as retailers have large numbers of small customers. Retailers can differentiate themselves quite strongly through the styles of clothing offered, which also weakens buyer power. In Brazil, although labels such as Gucci also have their own retail operations, there is a large market for non-designer apparel. The consumer profile in

Brazil differs considerably from that of most emerging and developed consumer markets (Artigas et al, 2007). Although multinational retailer (such as Mango, Miss Sixty, and Zara) have succeeded in serving the country's wealthy consumers for several years, informal "mom-and-pop" stores (some of which skirt taxes to obtain a competitive edge) and large local single-formal retailers dominate Brazil's mass market, ringing up more than 60% of the country's apparel sales.

Consumers in different country have a pattern of feeling, thinking, and potentially acting that they have learned throughout their lives (Hofstede & Hofstede, 2005). Brazil's consumers are extremely fond of shopping for clothes: almost 80% of respondents of McKinsey survey look forward to it. In addition, more than half of Brazil's shoppers say they use most of the clothing they buy for going out with friends and family. Fashion trends in Brazil are strongly shaped by local celebrities (in particular, prominent characters from popular television soap operas), and only local retailer (with a few noteworthy exceptions) consistently offer the mass-market segment these fashions (Artigas et al, 2007). Further, Brazilians are far more open to using credit than are consumers in the other markets such as India and Russia. Retailers in Brazil use attractive credit offering, such as installment payments, to entice customers.

JC Penney learned lessons from its experience in Chile and Mexico, by leaving the corporate culture and sales format at home, JC Penney survived in Brazil by adaptation. JC Penney maintained the Lojas Renner name. In Chile and Mexico, JC Penney attempted to grow organically and under its own name. However, Renner's logo has been

updated to give it a brighter, younger appeal. JC Penney spent around R34m a year on advertising in support of the brand, despite shifts in consumer buying power and GDP growth. JC Penney also integrated proprietary credit-card business to most successful retailing operations in Brazil. Some 6.5m Brazilians carry a Lojas Renner charge card (Business Latin America, 2004). In the last several years, Brazilian department store chains in general have been carving out niches to ensure their survival. Renner has concentrated on selling clothes to young, fashion-oriented consumers. Other accessories, such as watches and cosmetics, are also available, but more traditional department-store fare, such as cutlery and pots and pans, is gone from the shelves (Business Latin America, 2004). Among the largest of retailer, Lojas Renner is vying to take second place from local competition Riachuelo. Netherlands-based C&A is the market leader with an estimated B2bn (US\$700m) in sales in 2003.

Conclusion

In its distinguished history, JC Penney has emerged as one of the most innovative retailers cultivating the modern American consumer. Since becoming the prominent JC Penney in 1913, the company has quickly grown and today is one of the leading fashion retailers in the U.S. operating 1,048 department stores throughout the US and Puerto Rico, as well as one of the largest apparel and home furnishing sites on the internet, jcp.com, and the nation's largest general merchandise catalog business. Through these integrated channels, JC Penney offers a wide array of national, private and exclusive brands which reflect the Company's commitment to providing customers with style and quality at a smart price. Key to this strategy is JC Penney's "Every Day Matters" brand

positioning, intended to generate deeper, more emotionally driven — relationships with customers by fully engaging the Company's 155,000 Associates to offer encouragement, provide ideas and inspire customers every time they shop with JC Penney. As a retailer, JC Penney faces stiff competition from many fronts, ranging from department store operators such as Macy's Inc. (M) and Kohl's (KSS) to specialty retailers like Abercrombie & Fitch Company (ANF) and big-box retailers like Wal-Mart Stores (WMT) and Target (TGT).

The unsuccessful internationalization in Chile and Mexico has provided JC Penney with a new basis of strategies for future expansion. These markets were unsuccessful due to JC Penney failure to offer products suitable to the taste and preferences of the local consumers. The product mix was without modification and therefore rejected. Merchandise was inadequate, with high logistical cost due to the differing seasons and the company failed to look at the differences between foreign markets and the U.S. market. Space limitations and localizations were other difficulties in successful expansion. As a result, the company withdrew from these areas.

JC Penney entered Brazil in 1998 with the acquisition of Lojas Renner, a nonfood retailer. The company brought with them strategies learned from previous mistakes in Chile and Mexico. The department store brought a willingness to adapt to the local market. JC Penney left the corporate culture and sales format at home and began to succeed with adaptation into the Brazilian community. JC Penney maintained the Los Renner name, updating the logo, giving it a brighter, younger appeal. The company has concentrated on selling apparel to the young, fashion-oriented consumer. Today, the

company has increased stores from 21 to 60 and posted sales exceeding \$700 million (Company Profile, 2007).

In this crowded landscape, JC Penney's success will hang on its ability to distinguish itself from its competition and better serve niche consumer segments. JC Penney's central strategy is to focus on lifestyle. The company has increased private and exclusive brands which attract the middle aged, higher income consumers that represent the core of the company's consumer base. With the strong market position and strong distribution network, JC Penney continues to differentiate themselves by shortening their fashion cycle which enable the company to supply current fashion trends to their customers. These strategies has resulted in sales growth which outpacing the company's sales in its long history as one of the nation's top retailers.

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